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ABSTRACT

This paper compares two methods of finance reform in public schools, state referenda and state legislation. Two research groups--Syracuse University and Columbia University--studied, respectively, seven states whose legislatures passed new school finance formulas and five states that defeated referenda that would have reduced or eliminated reliance on local property tax to finance education. The paper concludes that the adoption of a new school finance formula is more likely to be achieved through the legislative process than through a referendum. Factors contributing to the success of the legislative process were shown to be compromise, political leadership, and a healthy fiscal situation. Finally, the paper suggests that the federal role in finance reform cannot be dismissed. Some encouragement can be seen in the passing of Public Law 93-380, which provides for some funding of elementary and secondary education. (Author/LD)

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THE POLITICS OF SCHOOL FINANCE REFORM
STATE REFERENDA, STATE LEGISLATION, AND FEDERAL INCENTIVES

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The Education Policy Research Institute (EPRI) is a new research division of the Educational Testing Service. It was founded on January 1, 1975 by Joel S. Berke with his colleagues from the Washington offices of the Educational Finance and Governance Center of Syracuse University Research Corporation. Since then, new staff members have been added in both the Washington and Princeton offices.

The Institute addresses policy issues central to educational finance and governance such as equity in resource allocation, uses of educational assessment, and effectiveness of alternative educational strategies. These problems are approached from an interdisciplinary perspective: educational, administrative, sociological, political, economic, legal, and anthropological.

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Joel S. Berke, Director

THE POLITICS OF SCHOOL FINANCE REFORM: STATE REFERENDA, STATE LEGISLATION, AND FEDERAL INCENTIVES

by

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INTRODUCTION

Methods of financing public schools have received unprecedented public attention recently due primarily to a series of state and federal court cases. While not all the legal challenges to existing systems of school support have been successful, they have led to a great upsurge in efforts to adopt new school finance formulas. Many states have considered this issue in the last four years, but only some of them actually adopted new programs. Why is it that some states have opted for change, while others have chosen to retain their existing formulas?

This paper draws upon recent studies of the politics of school funding to suggest that at least part of the answer may be found in the political processes through which change has been pursued. To put it most simply, a finance reform proposal placed before the voters is most likely to be rejected; a similar proposal put before the state legislature has a better chance to be adopted. Further, some of the conditions, strategies, and tactics which contribute to that success can be identified with a reasonable degree of confidence. Lastly, the possibility of a federal incentive to encourage reform must be considered.

Reforming Public School Finance

To understand the politics of reforming public school finance, some background in the issue is essential. The manner

in which public school revenues are raised and distributed has changed very little in the last fifty years. Throughout this period, the bulk of school funds has come from local property taxes. While states have supplemented these local funds with a variety of categorical and general aid grants, the federal government has supplied only limited aid to education. During the 1973-74 school year the National Educational Association estimated that local school districts provided approximately 49 percent of the funds for education expenditure, states 43 percent, and the federal government 8 percent. However, the proportions differ substantially from state to state; in 1973-74, state governments provided as much as 89 percent of public school revenues in Hawaii and as little as 7 percent in New Hampshire.

This basic structure of school finance produces great variations in educational expenditures within and among states. It is the former problem on which school finance reform has focused. In almost every state at present, some districts provide two to three times the level of educational resources per pupil provided by other districts. A major cause of such differences is the unequal distribution of property wealth per pupil among school districts. One ironic result of the differences in the size of the local tax base is that districts low in property wealth frequently tax themselves at higher than average tax rates and yet realize less than average expenditure levels. Conversely, districts with strong tax bases frequently

spend higher than average sums on education yet have lower than average tax rates. In short, school expenditures vary directly with the property wealth of local school districts rather than with the tax effort the community exerts to finance public education.

It is this relationship between local property wealth and school expenditures that has been challenged in the recent court decisions on school finance. Beginning with the Supreme Court of California in the Serrano case of 1971, a number of state and federal courts have found unconstitutional systems of raising revenues for education with features like those just described. The U.S. Supreme Court in a narrow five to four decision ruled that the Fourteenth Amendment of the U.S. Constitution does not prohibit states from utilizing systems which rely primarily on the local property tax base to finance public schools. However, courts in California, Kansas, New Jersey, and most recently Connecticut have found that their state constitutions prohibit such systems of school funding. In other states, the threat of court action and the logic of the decisions noted above have prompted citizens' commissions and public officials to consider changes in the financing of public schools.

While the legal thrust of the 1970's has brought unaccustomed publicity to school finance, many of the problems now being discussed have been recognized since the early 1900's. Attempts to overcome disparities in school expenditures due to differences

in local wealth have affected school finance in two ways. First, the states' role in financing education has increased, resulting in less reliance on locally raised revenues. Second, the principle of equalization has been incorporated into state aid formulas. Under an equalizing formula, the state education aid a district receives is a function of its local tax base, so that the highest amounts of aid per pupil go to localities with the weakest property tax bases.

However, despite the fact that nearly all states now base at least a part of their state educational aid on equalization principles, the tie between local property wealth and school expenditures remains strong because the equalization provisions are not fully funded or represent only a small portion of the state aid formula. As a result, the issues in recent attempts to change school aid formulas are familiar ones: reducing reliance on the local property tax, increasing the role of the state, and heightening the level of equalization in the distribution of state revenues for education.

There are generally two routes through which proposals for changes in school finance formulas have been processed, the state legislature or a referendum. As the interest in school finance reform has intensified in recent years, proponents of change have tried both routes. The analysis which follows will draw upon the efforts of two research groups who have studied these two possible roads to reform. Researchers at

the Syracuse University Research Corporation financed by the U. S. Office of Education have examined seven states whose legislatures recently passed new school finance formulas. Scholars at Teachers College, Columbia University, under the auspices of USOE and the Ford Foundation, have studies the defeat of referenda which would have reduced or eliminated reliance on the local property tax to finance education in five states. While the two studies were not designed as a single research undertaking, a comparison of their findings yields substantial insight into the factors contributing to success or failure in attempts to change school finance formulas. Because they deal with basic elements of the political process, findings of these studies may apply to attempts to change policy outside the realm of school finance or education as well.

REFERENDA AND INITIATIVES ON SCHOOL FINANCE REFORM

Many changes in school finance, including elimination of the local property tax and in some cases revision of distribution formulas, require amendments to state constitutions. The amendment process in every state (except Delaware) requires approval by referendum. In addition, school finance proposals may be voted upon by the public if such proposals are put on the ballot through the initiative process in states where that if possible, or by legislative referendum. In 1972 and 1973, measures which would reduce or eliminate reliance on the pro-

perty tax as a means of financing education were offered to the voters in five states. All were defeated.

In November 1972, electorates in California, Colorado, Michigan, and Oregon voted on constitutional amendments related to financing public education. In California, Proposition 14 (the Watson Amendment) would have reduced property tax rates for schools, cities, counties, and special districts by approximately 40 percent. In Colorado there were two amendments: No. 7, which would have limited the property tax to 1.5 percent of actual property value and would have given schools only a fifth of that; and Amendment 12, which would have virtually barred the use of property taxes for school funding, replacing them with income, sales, severence, and other taxes. Michigan's amendment (Proposal C) would have banned property tax use for general school operations and limited it to specified school purposes. In Oregon, constitutional amendment No. 9 prohibited the use of property taxes to finance the operating expenses of schools. Less than six months later on May 1, 1973, Oregon voted on Governor Tom McCall's tax reform amendment which proposed limiting the use of the property tax for school finance. In November, 1973, Washington's Governor Dan Evans' income tax proposal (HJR 37) went before the voters. Table 1 indicates the vote totals and the margin of defeat for all seven measures.

TABLE 1

FINAL VOTES ON CONSTITUTIONAL AMENDMENTS

November 7, 1972	Yes	%	No	%
California				
Proposition 14	2,678,071	34.2	5,156,221	65.8
Colorado				
Amendment 7	192,903	23.5	627,007	76.5
Amendment 12	167,882	21.0	628,196	79.0
Michigan				
Proposal C	1,324,702	42.2	1,815,126	57.8
Oregon				
Measure 9	342,885	38.0	558,135	62.0
May 1, 1973				
Oregon				
Measure 1	258,547	41.0	362,975	59.0
November 6, 1973				
Washington				
HJR 37	228,823	22.9	770,033	77.1

The defeat of these proposals surprised many observers especially since opinion polls (Gallup, Advisory Commission on Intergovernmental Relations) had indicated widespread support for reducing local property taxes and increasing state taxes as means of financing education. The explanation for the defeat of these proposals appears to lie both in the content of the proposals and in the referendum and initiative processes themselves.

Content of the Amendments

The most obvious feature of the substance of these measures is that they dealt with finance. The literature on constitutional amendments (only the Washington proposal was not an amendment to the state constitution) shows that amendments related to fiscal matters have a lower chance of passage than other types of amendments (55 as opposed to 69 percent for the years 1968-71).

Each of the finance proposals was very complex, with many detailed provisions. This complexity contributed to their defeat in two ways. The fact that each proposal had so many features made it easy to build a "negative coalition" in opposition to the measures. Furthermore, their complexity confused many voters, and bewildered voters appeared to vote against the proposed change.

In every state, a variety of interest groups found different aspects of each proposal objectionable. The result was that a great variety of groups opposed the measures for widely differing reasons. The only thing they had in common was their negative orientation. While proponents were forced to defend all parts of the amendments, opponents only needed a single feature to seize upon.

Similarly, in every state the conflict was over details. There was little disagreement about the need for property tax reform; instead, the debate focused on how such reform should

be accomplished. For example, the limitation or abolition of the property tax for school funding meant that increases in or imposition of other taxes would be necessary. This led to a debate over the tax substitution issue, i.e. which taxes (and at what levels) should replace the local property tax.

Whether the proposed new sources of revenue would produce as much revenue as the property tax had in the past was the subject of further debate. Controversy also arose over how (or if) the distribution of education funds would be altered by passage of the amendments. Finally, in every state the specter of weakened local control of schools frightened potential supporters of the amendments.

Opponents of these various issues formed coalitions in every state. For example, in California the insurance companies (which opposed a section of the 1972 amendment eliminating tax exemptions on their home office buildings) were joined by school-men (concerned about the loss of local control suggested by increased state assumption of education costs). On Oregon's 1972 amendment, anti-business groups and individuals (worried about the possibility of substituting income taxes for the 63 percent of current property tax revenues paid by business and industry) found friends among voters who opposed a big tax break for farmers. The second Oregon vote allied those concerned with the impact of the proposal on the state's economic growth with education interests worried about local control and distribution of education funds. Michigan's AFL-CIO (arguing

that the imposition of a value-added tax would bring a tax windfall to business) found allies among anti-busing and anti-income tax groups.

On both Colorado amendments, education groups were worried about local control and a possible reduction in funding for education. They formed an alliance with business and industry, who were concerned about possible tax increases. Good-government groups, such as the League of Women Voters, also joined this coalition. The latter groups were particularly opposed to putting detailed revenue provisions into the state constitution.

The complexity of the proposals and the strategies pursued by the opponents appeared to lead to considerable voter confusion. In every state supporters ran "educational" campaigns focusing on the inequities of the property tax. Opponents stressed the technical weaknesses in the amendment package and drew supporters into a "numbers debate" on the amendment's impact, e.g. its total cost or the tax burden its adoption would impose on particular groups. According to both sides, this tactic greatly added to voter confusion. Opinion polls taken during the course of the campaigns in some of the states reinforced this conclusion. Large numbers of voters said they did not know how they would vote on the amendment and the number of "don't knows" steadily increased during the course of the campaign. On election day, it appears that most

of the uncertain voters rejected the proposals, preferring to keep a system whose impact they knew rather than embark on an unfamiliar and unknown one.

Referendum and Initiative Processes

Several features of the initiative and referendum processes also appear to have contributed to the defeat of the measures. In every state, constitutional amendments can be proposed either by the legislature or a constitutional convention. In addition, 14 states -- including those analyzed in this study -- allow amendments to be proposed by the initiative process. The literature on constitutional amendments shows that few proposals which use the initiative process are adopted. Table 2 reveals the low adoption rate of initiatives over the past few years.

TABLE 2

ADOPTION OF STATE CONSTITUTIONAL AMENDMENTS, 1964-71

Method of Placing Amendment On the Ballot	Percent Adopted
By state constitutional convention	82.5
By state legislature	66.7
By initiative	9.1

Source: Albert L. Sturm, "State Constitutions and Constitutional Revision," in The Book of the States, 1972-73 (Lexington, Kentucky: The Council of State Governments, 1972), p. 4.

It is, therefore, significant that five of the seven constitutional amendments in this study were initiatives.

Initiatives

A number of factors account for the low adoption rate of initiative measures. Initiatives are difficult procedures and expensive to use. In addition, the initiative process tends to be used for controversial issues which the legislature has rejected or which, in the opinion of proponents, do not have a chance in the legislature. Finally, initiatives are usually proposed by a small number of interest groups or individuals who have either failed or have not tried to build broad coalitions. Consequently, initiatives usually do not represent proposals that have been compromised sufficiently to attract broad support. In these cases, the proponents of each amendment seemed rather naive about possible reactions to details of the amendment they favored. Convinced that voter antipathy to the property tax would conquer all objections to their proposals, proponents made few attempts to build support prior to circulating their petitions to place the measure on the ballot.

As a result, where the initiative was used, nearly all major interest groups opposed the amendments. Each measure had very few sponsors: in California, Proposition 14 was sponsored by the assessor in Los Angeles County; Michigan's Proposal C was brought forward under the aegis of the Michigan Education Association; in Colorado the state's AFL-CIO and Common Cause

organization sponsored No. 12, while a narrowly based ad hoc group, the Property Tax Limitations Committee, backed No. 7; the 1972 Oregon amendment was sponsored by the State's Farm Bureau.

Referenda

An issue placed on the ballot through an initiative is, therefore, not likely to have been sufficiently compromised to be adopted. However, since legislatures work in an atmosphere where compromise is the rule, a measure put on the ballot through legislative action is more likely to have been modified. However, legislative proposal is not a guarantee of extensive support.

The fact that the legislative vote is not the final decision on the issue may remove some of the incentive to compromise sufficiently to pre-empt expected opposition. This may have happened to the second Oregon proposal, placed on the ballot by the legislature. Indeed, one may question whether an amendment that is going to referendum will ever be fully compromised. Opposing legislators may choose to avoid internal legislative pressure by voting for a measure, saying it should be placed on a ballot "to let the people decide." They then are free to campaign against the amendment during the referendum campaign. Some evidence indicates that this happened in Oregon. The measure's proponents, the governor and legislative leaders, represented almost as narrow a group of supporters as did the initiators in the other states.

LEGISLATIVE ENACTMENT OF SCHOOL FINANCE REFORM

Seven states whose legislatures have recently passed new school finance plans have been studies in an attempt to identify factors which contributed to the success of reform efforts in these states. Five of the states, Minnesota, Kansas, Utah, Florida and Maine, passed extensive new school aid formulas which considerably narrowed the range in school expenditures and tax rates between property rich and poor school districts. The California law went beyond the previous system, but was not as extensive or as equalizing as the reforms in the first five states. The Oregon proposal passed the legislature, was submitted to the voters, and defeated as indicated in the previous section.

While the politics surrounding the legislative battle in each state were unique, there are five themes which help to explain the results in all seven states. These include a history of reform effort, factors external to normal educational politics at the state level, the role of political leadership, the existence of a package of proposals or a set of tradeoffs, and a favorable fiscal context.

A History of Reform Effort

In the states which passed school finance reform, there had been a history of developing concern and study prior to the final passage, so the process leading to change was one of evolution rather than revolution. Kansas, for example,

was a state in which, since the 1970 session of the legislature, there had been an alternation of standing committees and interim committees (during the off season of the legislature) studying and considering change in the educational funding system. Finally, in the legislative session of 1973, a law providing significant equalization of taxable capacity was passed. During the three year period proposals and counterproposals had been developed, closure on the issues was gradually achieved, and continuity was maintained among the legislative personnel and staff working on the effort.

Similarly the background of the Florida law of 1973 may be traced back several years, in this case to a gubernatorial study commission appointed by Governor Kirk in 1967. As in Kansas, there was similarity in personnel and evolving ideas of equalization, with the addition of a few new factors, cost-of-living adjustments and pupil weightings, through a study commission established by Governor Askew in 1971. In the years between the 1967 Commission and the 1973 law, there was a gathering of forces, a development of public and legislative opinion, and a new study commission with a widely respected chairman, capable staff and consultants, and politicall' powerful members.

Utah is another state which enacted a new and widely acclaimed state aid formula in 1973. However, the new law is in fact primarily an adjustment of provisions passed in

the sixties. In addition, there was also one new element, an intricate pupil weighting system.

Thus, in these states, events had been developing over a period of years, and what came about in 1973 was the culmination of efforts and concern that had been growing for some time.

Factors External to Ordinary State Educational Decisionmaking

Despite the element of continuity or gradualism, in each state extraordinary factors or developments external to normal patterns of educational policymaking helped to produce this history of study and to permit earlier legislation to blossom into new and expanded school finance legislation. "External factors" include such things as the Serrano case and its general impact. In addition, there were individual state cases of importance like the Caldwell case in Kansas, which provided a time limit against which the legislature had to work. It appears that those cases were merely one thread, although a very important one, in the fabric of change. The legislative leaders who claimed publicly that Caldwell v. Kansas made them change the school finance laws are the same legislators who were developing new legislation before the case was brought and who, in at least one case, was a prime participant in the legal proceedings on the side of the plaintiffs.

In Minnesota, the legal decision, Van Dusartz v. Hatfield, appeared to be a prod to final agreement among contending gubernatorial and legislative factions. However, the Minnesota reform was far more a product of the previous year's gubernatorial campaign and the legislature's negotiations than it was the result of judicial decision-making. In short, the general mood created by Serrano and the impact of particular cases was an important element preventing educational policy "business as usual," but the cases were not the determining factor by themselves.

There are other, less dramatic, external factors. The efforts of the National Education Finance Project, the efforts of the Education Commission of the States, the National Lawyers Committee for Civil Rights Under Law, meetings that were convened by groups such as the National Legislative Conference and others -- all these were factors which contributed ideas and which gave legislators and education interests reinforcement as they moved forward in school finance reform. Other external factors were also important. For example, meetings of the Commiteee for Support of the Public Schools in the mid-1960's were mentioned by several legislators as the point at which their thinking about school finance reform was first stimulated. Special commission studies in a number of states also played their part.

Political Leadership

Political leadership is a third factor which seemed important in the states that were studied. One might almost conclude that school finance reform, to be successful, must be an "inside job." That is, there must be leadership from within the legislature. In addition, gubernatorial initiative or support has also been important in a number of cases, but state education departments generally have not taken the lead, have not been the initiators, and in some cases have been opposed to change. While some middle level education department staff worked closely with legislators and their staff providing data and advice, the leadership of state education departments stayed on the sidelines in finance reform efforts in all states studies except one.

Educational interest groups have played an important role in some places, but not in others. More interesting was the entrance of noneducational interest groups, e.g. the Maine Municipal Association or the Minneapolis-St. Paul Citizens League, into an educational issue, because they felt that school finance was too important and too central to general fiscal policy to leave to educational interests alone.

In short, those chiefly responsible for passage of the new finance laws were primarily politicians, governors and their aides, legislative staff and legislators who did their homework, who mastered the issues, and who, in some cases,

staked their political reputation on the school finance reform issue. These politicians included a group of able and knowledgeable education committee members and legislative leaders, who in several cases had risen to leadership positions such as governor, speaker, majority leader, or president pro tempore after having served as education committee chairmen.

A Package of Legislation, A Set of Tradeoffs

Why is the legislature so central to the political change process in school finance? In a formal sense, legislators have to pass legislation. More importantly, however, it is the legislature which is best suited to the negotiating, compromising, fine tuning, and balancing of interests which have to be a part of passing new finance laws. The fourth factor, then, is the package of measures or the set of compromises developed to bring together the winning coalition to pass school finance legislation.

School finance reform legislation alone does not often appear to have enough political clout to pass on its own. It is usually necessary to assemble a package of measures to get the necessary legislative votes. Kansas provided a classic example of how this process works. Before the session opened, the legislative leaders and staff prepared an analysis showing revenues by district under their proposed equalizing formula. Then they identified the legislators whose school districts lost or did not gain substantial revenues,and determined what

other measures would get the support of as many as possible of those legislators or districts. They then assembled an integrated package of eight measures. The term package is particularly appropriate, since the eight bills literally were kept together in the Speaker's and Senate President's desks with a rubber band around them. The measures included the general formula, state assumption of county welfare costs, additional funds for junior colleges, the payment of out-of-county junior college tuition, the inclusion under the retirement system of teachers who had retired before the state system was adopted, and some construction money for the state's medical school. Clearly the package included matters which were extraneous to school finance reform but which would help some districts make up for what they lost by the general formula.

Then there was a further tradeoff: the Governor's price for support of the finance bill was a corporate income tax provision and only when both the legislature and the governor were ready to agree to the others' requirements would each sign the legislation. Thus the story of school finance reform in the 1973 session in Kansas was one of getting those eight measures and the governor's tax measure passed. In most of the other states under study, although the packages were not quite as literal or as extensive as the one in Kansas, passage of school finance involved tradeoffs and agreements on other issues as well.

In each successful piece of legislation, there was also a set of internal tradeoffs, a set of compromises within the finance bill itself. Utah provides a good example. There was considerable disagreement over whether to use average daily attendance (ADA) or average daily membership (ADM) as the method of counting pupils for aid purposes. The urban interests wanted a membership (ADM) approach because this is most favorable to urban areas with their higher truancy rates. The small town interests preferred an attendance count (ADA) because they had a more regularly attending pupil population and would have their pupil count, and thus their aid funds, maximized by that approach. The legislature ended the disagreement by adopting the following pupil count: (ADA + ADM) ÷ 2.

In Florida, the recognition of cost level differentials among districts and state support of capital construction costs was the price the more urbanized districts extracted for their agreement to raising the level of the millage guarantee. Since the higher property values in the Miami, Palm Beach, and Broward County districts were drawn upon to provide equalization funds for property-poor areas, some mechanism which would provide state funds for them was necessary to get their votes. Cost-of-living differentials and state assumption of construction costs provided aid to those three key counties and assured their support of the reform bill as a whole.

The experience in these states also points to the necessity of building coalitions within and outside the legislature in order to produce sufficient support to pass a new plan. There are a variety of coalitions which could be put together. The important factor was that in each state, enough additional features were added to the basic reform and enough compromises were made that support for the final package of proposals extended far beyond the original supporters of the new finance plan.

Fiscal Surplus and General Revenue Sharing Funds

The last factor which appeared to operate in each case is not surprising. In every state which passed substantial legislation, with exception of Minnesota which passed major tax legislation in the same session of the legislative as school finance reform, either a budget surplus or general revenue sharing money was available to cover the costs of the first year of the new program and to cushion the financial blow. There was little new tax legislation accompanying the new school aid formulas in 1973. In Maine, for example, three years of revenue sharing money were assigned to education to finance the new school aid formula.

CONCLUSIONS ON STATE POLITICS OF REFORM

Having looked separately at recent experience with both legislative and electoral consideration of school finance reform, what overall conclusions emerge? Three elements appear to be important in both legislative and electoral arenas: the art

of compromise, the fiscal context, and political leadership. On the other hand, the implications of putting together a complex package of proposals appear to be very different in the two settings. Finally, the major implication of the research reported here is that adoption of a new school finance formula is far more likely to be achieved through the legislative process than through a referendum. This conclusion is confirmed by subsequent developments in school finance in the states where referenda were defeated.

Difficulties with Referenda

A number of factors make it unlikely that a referendum on a constitutional amendment or on school finance legislation will be approved, particularly if it is put on the ballot by means of an initiative. The fiscal nature of the issue, the deterrent to compromise that holding a referendum poses, the expense of mounting a statewide campaign, the limited initial support and compromise involved in initiative measures all suggest that attempts to reform school finance through the initiative and referenda processes are likely to meet defeat.

Simplicity or a Package of Measures?

Within the legislative arena, complexity or a package of measures is an advantage in trying to build support for a proposal. In this manner diverse interests can be accommodated. However, in referenda politics complexity may contribute to the

defeat of a measure as appeared to be the case for the school finance referenda. Most of the constitutional amendments reviewed earlier had too many parts -- parts whose controversial nature killed the whole.

The research suggests that greater simplicity might make the passage of school finance referenda more likely. Amendments on financial matters are inherently difficult to explain to voters. Simplification may avoid much of the confusion and also reduce the possibilities for building negative coalitions on such issues. One way to achieve such simplification of the issues would be to spread major changes over a number of years and proceed only one step at a time.

The different implications of having a package of measures in legislative and electoral politics indicates a difference between the two types of politics. Within the legislature log rolling or adding features to a measure in order to gain additional votes is the way coalitions are built. However, in trying to achieve voter approval of a measure, adding features may decrease the chances of passage rather than improve them. What works to gain the support of a variety of legislative interests may only confuse or alienate the voter.

Themes Common to the Two Arenas

Compromise, political leadership, and the fiscal situation are important whether legislative or electoral approval is sought for school finance reform. Compromise and political

leadership appear to be necessary but not sufficient conditions to produce school finance reform in both arenas. In several states, notably Oregon and Washington, strong leadership was provided by the governor and the referenda were still defeated. Nevertheless, those referenda probably fared better than they would have without such gubernatorial support. An analysis of voting patterns revealed that in the instances where the governor was active in initiating and campaigning for the referendum (Oregon in 1972 and 1973, Washington in 1973), support of the governor was correlated with support for the amendment. Areas which had supported the governor in his last race were more likely to approve the amendment.

Since most proposals for school finance reform propose closing the expenditure gap between rich and poor districts by "leveling up," i.e., raising expenditures in the poor districts rather than reducing them in wealthy ones, they involve increases in state expenditures for education. The need to find additional revenue to cover such increased state aid is the reason that a state's tax and revenue situation has an important impact on the fate of school finance reform. Reform is much easier if money is available from a state surplus or revenue sharing to finance the new program, since the political conflict will then revolve around the issue of the distribution of aid alone. However, if additional tax funds are needed to pay for the new formula, conflict becomes more intense and complicated since

it involves raising as well as distributing revenue. In the states which experienced referenda defeats, it was not obvious that there was revenue available to finance a new school aid formula and the revenue raising issue was a major one in the public debates over the referenda. The states which adopted new legislative formulas had money available and could avoid controversy over raising old taxes or imposing new ones to finance their plans.

If a state does not have a surplus or other funds to finance increased state aid to education, it appears likely that the state's tax structure has an impact on the ease of achieving reform. The two taxes which are the major sources of revenue for state governments are state sales and income taxes. It is probably easier to find additional revenue for state education aid in states that already have both taxes than in those with only one of them for two reasons. First, it is politically easier to raise the rates of existing taxes than it is to impose new ones. Public opinion polls consistently show that people prefer the taxes they presently pay to new ones. Second, a state which utilizes only one of these major taxes is likely to have rather high rates for that single tax, a situation which makes it difficult to increase those rates even higher. In such states, the debate over school finance reform may be subordinated to controversy over the introduction of a new tax. This happened in several of the states in which referenda were defeated, notably Oregon (introduction of a sales

tax) and Washington (an income tax).

Post Referenda Defeats

Perhaps the most instructive summary of the politics of school finance reform is found in the subsequent developments in school finance in the states where referenda proposals were defeated. In Colorado and Michigan, the issue was taken up in the next legislative session and new school aid formulas were passed. Oregon submitted another proposal to the voters six months later and again it was rejected. In California the legislature did adopt a new formula, but the 1973 tax initiative sponsored by Governor Reagan was defeated. Thus, the aftermath of defeats at the polls in these four states supports the basic lesson of this article: the legislative process provides a more promising route for school finance reform than initiatives or referenda. As Robert Frost found in the New Hampshire woods, when two roads diverge, the one taken makes all the difference.

THE FEDERAL ROLE IN SCHOOL FINANCE REFORM

But state efforts alone are not the only roads to reform. There is also the potential of a federal incentive. While that development is at present mostly inchoate, there are a number of signs that it must be considered.

School Finance Reform and P.L. 93-380

The major federal education law to pass the last Congress, P.L. 93-380, reauthorizing and amending many provisions of existing legislation, included at least three sections that relate to improving the funding of elementary and secondary education in the directions charted by the finance reform movement.

Section 842 authorizes school finance planning grants of between $100,000 and $1,000,000 depending upon state population, to assist states in developing plans that will increase equalization. While the provision was not funded, it reflects the interest of the education committees in the need for change in state formulas, and provides a potential mechanism for encouraging state action should funds be appropriated for its implementation in the future.

A second provision of interest may be found in the state plan requirements attached to the consolidation of ESEA II, NDEA III, and other aid programs, Section 403(a)(4).

That provision requires that states give funding priority to two types of districts: districts with low tax bases that make average or better tax effort for education, and districts with high fiscal and educational needs, with needs defined in ways that would funnel the money into large urban and poor rural districts. The formula factors for need include sparsity (for rural needs) and bilingualism, poverty, and high mobility for urban needs. Thus in distributing federal aid for learning and library resources, states must give priority to funding for those districts disadvantaged by most existing state systems of school finance.

The third relevant section of P.L. 93-380 is the provision dealing with P.L. 874 Impacted Areas Aid Section 5(d)(2). It permits a state that has an equalizing state aid formula to count its P. L. 874 money as local resources. This lessens the amount of state aid that a state must provide to districts receiving Impacted Areas Aid. The problem, of course, is that USOE is required to define an equalizing state aid formula, and that is a very controversial issue. The Commissioner of Education has taken a position that because of Congressional intent in the framing of the provision and because of previous positions he has taken, the definition of an equalization formula must be a strict one. And he has tried to develop an objective measure, a disparity test, as well as an alternative descriptive set of criteria to carry out that aim. He has sought to include both expenditure and capacity equalizing plans, but to do so only for

formulas that really accomplish equalizing goals rather than permitting states to qualify with statements of pious intent. Many states are unhappy because they think the tests are too stringent; some key Senate and Congressional education committee members think the regulations are too lax. In any event, the point is that there is now a federal measure aimed at rewarding school finance reform by permitting states to treat P.L. 874 funds as local money and thus reduce state aid payments where meaningful equalization occurs at the state level.

Proposed Federal Measures

There have also been a number of bills introduced in recent years which attempt to put the federal government in the business of assisting states to deal with their school finance problems. (See notes for some examples.) Some of them are broad brush measures which appear to have been introduced so that a Congressman or Senator could indicate his concern with school finance reform with little intention that the measures would become law. Others are carefully drawn. A number deal primarily with revenue raising; others deal with revenue distribution. Some measures have intricate reform provisions attached to them while others seem to be general aid provisions. But each of them has been drafted and introduced to serve a common theme: to assist states to implement principles of school finance reform.

How do these bills define reform? Fiscal neutrality, the Serrano principle that funding shall be based on general state wealth, not on the wealth of any individual community, is an explicit requirement of a number of these measures. Special needs funding is another provision that many of them require. One bill even uses the National Education Finance Project general weightings for counting pupils in its state need index, while many other bills simply say that states must take into account special high-cost educational needs through state devised measures. A third theme besides fiscal neutrality and need weightings is higher state assumption or a shift away from the local property tax. Those fiscal goals are the explicit purpose of at least four of the nine measures that we have reviewed recently. And fourth, a common reform theme is an attempt to tie change in finance to educational improvement through a variety of requirements for state-wide assessment, accountability procedures, effectiveness measures, or bonuses for increased achievement.

Now what does all this mean? It clearly does not mean that the federal government is likely to launch a large new program of aid to the states to improve school finance funding tomorrow. There is no perceptible pressure in the short run toward a large new school funding measure like the ones under serious consideration in 1972 which ranged up to $10 or $12 billion in cost tied to a federal value added tax. On the other hand, however, the possibility of substantial federal assistance, perhaps of several billion

dollars to assist states to modernize school funding, can not be written off as a dead issue for all time. There are pressures that are building; there are Senators and Congressmen, and congressional and HEW staff, who are interested in and are working on the issue. In a sense, the current stage in which bills are being introduced and studied is reminiscent of the early stages of the history and precedent building that we saw preceding school finance reform in the states.

Thus if that external element comes along which acts as a catalyst -- as the build-up of defense plants and military bases did for P.L. 874, or Sputnik did in 1958 for NDEA, or the war on poverty for ESEA -- the issue may be lifted to priority status in the future. Had the Rodriguez decision gone the other way, the set of conditions might have been ripe for a federal incentive to encourage states to eliminate the denials of equal educational opportunity that are rooted in most state funding systems.

SUMMARY

To summarize: this paper has suggested that state initiative and referenda are unsuitable routes to school finance reform. Both because of (1) the nature and complexity of the subject matter, and of (2) the difficulty of the politics that characterize direct democracy such efforts at reform of school finance have little chance of success.

On the other hand, more traditional state political processes have been effective, particularly where the following sets of factors appear to be operative: a history of reform or study of school funding; extraordinary factors, like court cases, influencing educational politics; political leadership on the issue; effective compromise, negotiation, and coalition building; and relatively healthy state fiscal situation.

Finally, the paper has suggested that the federal politics in this area is uncertain, but that some initial concern in encouraging finance reform has been shown in P.L. 93-380. The Congress appears to be in a time of developing a history, some precedent, and some viable alternatives that a future catalyst could transform into a third road to school finance reform, a federal program to encourage state action. While no present movement of that kind is apparent, the future is unpredictable.

NOTES

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The initial findings of the referenda research are reported in much greater detail in a monograph, Donna E. Shalala, Mary Frase Williams, and Andrew Fishel, The Property Tax and Voters (Syracuse: Syracuse University Research Corporation, 1973); reprinted by Teachers College's Institute of Philosophy and Politics of Education in 1974.

Some of the results of the legislative research are reported in Joel S. Berke, Answers to Inequity: An Analysis of the New School Finance (Berkeley, California: McCutchan Publishing Corporation, 1974), 111-125. A fuller report of the study will appear in Joel S. Berke, Michael Kirst, and Michael Usdan, The New Era in State Education Politics (forthcoming, 1975).

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II. Bills to improve the distribution of revenues

A. Emphasis on general aid

H.R. 16, Perkins - School Finance Act of 1973

S. 1539, Pell - Elementary and Secondary Education Amendment of 1973 - Title IV

B. Emphasis on incentives for finance reform

S. 3797, Bentsen - The Education Equalization Act of 1974

S. 2414, Mondale - Elementary and Secondary Education Assistance Act of 1973

H.R. 3240, Hawkins - The Education Equalization Act of 1975

An analysis of these measures is currently in preparation at the Education Policy Research Institute. For a brief overview, see also Carol J. Anderson Federal Options in Education Finance Reform Report No. 54 Denver, Colorado: Education Commission of the States, June 1974.